

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Summary of Auditor's Results

FINANCIAL STATEMENTS

- We issued an unqualified opinion on the state's financial statements.
- We found no significant deficiencies in the design or operation of internal control over financial reporting that we consider to be reportable conditions.
- We noted no instances of noncompliance that were material to the financial statements of the state.

FEDERAL AWARDS

- Except for the Medicaid program, we issued an unqualified opinion on the state's compliance with requirements applicable to each of its major federal programs.
- We noted deficiencies in the design or operation of internal control over major federal programs that we consider to be reportable conditions. Reportable conditions identified in findings 02-5, 02-8, 02-9, and 02-11 of this schedule are considered material weaknesses.
- We reported findings that are required to be disclosed under OMB Circular A-133, Section 510 (a).
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, Section 520 (b), was \$27,610,206.
- The state did not qualify as a low-risk auditee under OMB Circular A-133, Section 530.
- The following were major programs, determined in accordance with OMB Circular A-133, Section 520:

CFDA	PROGRAM
10.551 10.561	<u>Food Stamp Cluster</u> Food Stamps State Administrative Match – Food Stamps
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.558	Child Care Food Program
12.401	National Guard - Operations & Maintenance
17.225	Unemployment Insurance
17.258 17.259 17.260	<u>Workforce Investment Act Cluster</u> Workforce Investment Act Adult Program Workforce Investment Act Youth Activities Workforce Investment Act Dislocated Workers

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Summary of Auditor's Results - continued

20.205	Highway Planning and Construction
84.007	<u>Student Financial Aid Cluster</u> Supplemental Educational Opportunity Grants (FSEOG)
84.032	Federal Family Educational Loans (FFEL)
84.033	Federal Work Study Program (FWS)
84.038	Federal Perkins Loan Program (FPL)
84.063	Federal Pell Grant Program (PELL)
84.268	Federal Direct Student Loan Program (FDL)
93.342	Health Professions Student Loans (HPSL)
93.364	Nursing Student Loans (NSL)
93.820	Scholarships for Students of Exceptional Financial Need (EFN)
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds
84.126	Rehabilitation Services – Vocational Rehabilitations Grants to States
84.332	Comprehensive School Reform Demonstration
93.268	Immunization Grants
93.556	Promoting Safe and Stable Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance Program
93.575	<u>Child Care Cluster</u> Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds
93.658	Foster Care
93.767	State Children's Health Insurance Program
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities
93.944	HIV/AIDS Surveillance

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Summary of Auditor's Results - continued

93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.775 93.777 93.778	<u>Medicaid Cluster</u> State Medicaid Fraud Control Units State Survey and Certification of Health Care Providers and Suppliers Medical Assistance Program (Title XIX Medicaid)
94.013	VISTA
96.001	Social Security Disability Insurance

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Financial Statement Findings

None reported.

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Summary of Federal Findings

Finding Number	Finding Caption
02-1	The Department of Community, Trade and Economic Development did not prepare and submit required financial reports for the Low Income Home Energy Assistance program.
02-2	The Department of Health should improve monitoring of subrecipients and ensure compliance of vendors for the HIV Care Formula Grants program.
02-3	The Employment Security Department is not complying with client eligibility requirements for the Unemployment Insurance Program.
02-4	The Employment Security Department did not comply with regulations for allocating payroll costs for four Department of Labor federal programs.
02-5	The State of Washington Military Department did not comply with federal requirements for time and effort reporting, prevailing wages and suspension and debarment.
02-6	The Department of Social and Health Services, Division of Vocational Rehabilitation, does not have adequate internal controls over the processing of expenditures for client services.
02-7	The Department of Social and Health Services, Division of Child Support, did not have adequate supporting documentation for printing and payroll costs.
02-8	The Department of Social and Health Services, Economic Services Administration, does not perform adequate or timely reviews to ensure the allowability of child care payments made to clients and vendors from federal and state funds
02-9	The Department of Social and Health Services, Economic Services Administration, is not in compliance with eligibility requirements for the Temporary Assistance to Needy Families program.
02-10	The Department of Social and Health Services, Economic Services Administration, did not comply with federal cost principles for charging terminal leave payments.
02-11	The Department of Social and Health Services, Medical Assistance Administration, has not established sufficient internal controls to ensure compliance with Medicaid provisions.

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Summary of Questioned Costs

Federal Grantor	State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Defense	State Military Department	12.401	National Guard Military Operations and Maintenance	\$51,527	02-5
U.S. Department of Labor	Employment Security Department	17.207	Employment Service	\$89,069	02-4
		17.225	Unemployment Insurance	13,376	02-3
				32,080	02-4
			17.258	Workforce Investment Act Adult Program	105,125
		17.260	Workforce Investment Act Dislocated Workers	48,403	02-4
U.S. Department of Health and Human Services	Department of Social and Health Services	93.558	Temporary Assistance to Needy Families	\$10,106	02-9
		93.563	Child Support Enforcement	38,086	02-7
		93.575	Child Care Development Fund	1,233,919 (Note 1)	02-8
		93.575	Child Care Development Fund	37,673	02-10
		93.778	Medicaid	430,682	02-11
TOTAL QUESTIONED COSTS				\$2,090,046	

Note 1:

Of the total amount questioned, \$809,919 relates to the Child Care Development Fund. The Department was unable to identify the federal program(s) charged for the remaining \$424,000. Refer to Finding 02-8 for details.

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Summary of Reported Fraud

None reported.

Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2002

Federal Findings and Questioned Costs

02-1 The Department of Community, Trade and Economic Development did not prepare and submit required financial reports for the Low Income Home Energy Assistance program.

Description of Condition

The Department of Community, Trade and Economic Development administers the Low Income Home Energy Assistance program (CFDA 93.568). During our audit, we found that the Department did not prepare and submit annual financial status reports for federal fiscal year 2000 and 2001 as required by the U.S. Department of Health and Human Services (HHS). These reports provide information about program expenditures, amounts obligated, and the balance of the award.

Cause of Condition

The Department was unaware of a change in the grant terms and conditions that required the financial status reports. This change was effective with the federal fiscal year ended September 30, 2000.

Effect of Condition

The Department expended \$23 million in fiscal year 2000 and \$34.6 million in fiscal year 2001. Without accurate financial information, HHS may not be able to make informed decisions regarding program operations. Further, failure to comply with federal requirements may affect future federal funding.

Recommendations

The Department informed us that it has prepared the required financial status reports for federal fiscal years 2000 and 2001 and submitted them to HHS. We recommend the Department prepare future financial reports within the timeline prescribed by the grantor.

Department's Response

*We **concur** with the determination that the department did not prepare and submit annual financial status reports for federal fiscal years 2000 and 2001 for the Low Income Home Energy Assistance program (LIHEAP), as required by the U.S. Department of Health and Human Services (HHS).*

The Department immediately submitted the required financial reports as soon as it was brought to our attention that the reports were overlooked. Until 2000, the LIHEAP program did not require annual financial reports. This new requirement was included in the 2000 award documents and was overlooked by program and fiscal staff. Staff vacancies and changes during the past two years in program and fiscal also contributed to this oversight. Upon contacting the Federal fiscal contact, we were informed that several states overlooked this reporting change and had not submitted their reports in a timely manner and they consider this a period of transition. Officials at HHS indicate that they would consider this a management item. Therefore, we do not believe this warrants a finding.

CTED's processes will be enhanced to address this issue in two parts:

As each new federal award is received by CTED programs, divisions will be asked to submit a Federal Award Cover Sheet, highlighting requirements that are included in that award's terms and conditions. Match requirements, reporting requirements, and other fiscal related processes will be highlighted by the Division responsible for the federal award. The cover sheet will be submitted to the CTED accounting services office, along with a copy of the grant award.

The CTED accounting services office will use the information provided by the Division to prepare a Federal Assistance Grant Profile for each award as it is received from the Division. The profile will accompany the fiscal year closing reconciliation for each federal program, when submitted to the analyst's supervisor for approval. The fiscal year closing reconciliation will be reviewed and approved by the Grants and Loan Team Manager, or designee. This process enhancement will be included in the fiscal year closing instructions.

Auditor's Concluding Remarks

We appreciate the Department's commitment to resolve the issue identified in the finding. We also appreciate the cooperation extended to us throughout the audit by Department staff.

Applicable Laws and Regulations

U.S Office of Management and Budget Circular A-133 Compliance Supplement, page 4-93.568.6, section L.1.a states:

SF-269A, Financial Status Report (short form) – Applicable beginning with Federal fiscal years ending on or after September 30, 2000.

02-2 The Department of Health should improve monitoring of subrecipients and ensure compliance of vendors for the HIV Care Formula Grants program.

Background

The objective of the HIV Care Formula Grants program (CFDA 93.917) is to assist states in developing or enhancing access to high-quality, community-based care for low-income individuals with human immunodeficiency virus (HIV) and their families. Comprehensive care includes primary medical care; access to U.S. Food and Drug Administration-approved drug therapies; support services that enable individuals to access and remain in primary care; and related services that promote health and enhance the quality of life.

States may provide some or all services directly, or may enter into agreements with local HIV care consortia, associations of public and non-profit health care and support service providers, and community-based organizations that plan, develop, and deliver services to individuals with HIV.

Description of Condition

In fiscal year 2002, the Department expended more than \$11 million under the HIV Care Formula Grants program. To carry out certain aspects of the program, the Department contracted with 14 lead agencies appointed by members of the Ryan White Care Consortia. Approximately \$2.6 million was awarded to these subrecipients.

During our audit, we reviewed the Department's system for monitoring activities of its subrecipients and the method of paying subrecipient claims. Of the 14 consortia lead agencies, we found that eight agencies do not submit supporting documentation with their reimbursement claims. When the Department does not receive supporting documentation with a claim, it cannot ensure that expenditures were made for allowable purposes and in compliance with federal cost principles. We also reviewed the Department's procedures for reviewing financial documentation when it performs on-site visits of the eight agencies, which would provide a compensating control, but found that it does not review that information. For the remaining six subrecipients, we found that each had submitted adequate supporting documentation.

Under its Early Intervention Program, the Department contracted with a vendor to provide medical insurance for eligible clients. The maximum compensation to the vendor under the contract for July 2001 through March 2003 is \$2.6 million. As part of the contract, the Department reimburses the vendor for administrative costs, which were budgeted at \$185,469 for the time period mentioned above. The contract stipulates that the vendor must provide the following documentation to the Department: a categorical budget, a list of all employees whose salaries are charged to the program, an accounting of travel costs and a list of equipment purchased, including why the equipment was purchased. We found that the vendor is not submitting this information to the Department and the Department is not taking action to ensure compliance with this requirement.

Cause of Condition

Seven of the eight consortium lead agents mentioned above are local governments and the remaining agent is a not-for-profit agency. The Department does not require local governments to submit supporting documentation, partly because the local governments receive an independent audit of their federal awards by our Office. The Department believed that receiving a copy of the audit report would satisfy its fiscal monitoring responsibilities. The Department removed the requirement to submit supporting documentation for the not-for-profit agency because it had a favorable history of compliance. In regard to the vendor contract, the Department stated staff turnover in positions responsible for monitoring contracts caused the condition.

Effect of Condition

Given the lack of documentation to support reimbursement claims and a lack of fiscal monitoring, the Department cannot ensure that eight of its 14 subrecipients have spent grant funds for allowable purposes.

Recommendations

We recommend the Department review financial documentation as part of its subrecipient monitoring program. Alternatively, the Department can require all subrecipients to submit supporting documentation with their reimbursement claims. We also recommend the Department ensure that all vendors comply with the provisions of their contracts.

Department's Response

We concur with the finding by the State Auditor's Office. The Department of Health (DOH) will develop procedures to improve monitoring of both local government and non-governmental subrecipients. The DOH will take the actions necessary to ensure that vendors for the HIV Care Formula Grants program comply with the provisions of their contracts.

Auditor's Concluding Remarks

We appreciate the Department's commitment to resolve the issues identified in the finding. We also appreciate the cooperation extended to us throughout the audit by Department staff. We will review the status of corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .400(d), states in part:

Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: ...

- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved....

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .210(f), states:

Compliance responsibility for vendors. In most cases, the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements.

02-3 The Employment Security Department is not complying with client eligibility requirements for the Unemployment Insurance program.

Background

The Employment Security Department administers the Unemployment Insurance program (CFDA 17.225), which is partially funded by the U.S. Department of Labor. The program provides partial wage replacement for workers who are unemployed through no fault of their own. The majority of unemployment benefits received by claimants are paid under the regular compensation program. If claimants exhaust their regular compensation, they may be able to qualify for extended benefits or emergency compensation.

Description of Condition

The Department is required to determine whether its clients are eligible for the benefits they are receiving. Our audit of eligibility focused on regular compensation and extended benefits.

To receive extended benefits, claimants must make a systematic and sustained effort to seek work and must provide tangible evidence of such efforts. Federal regulations define tangible evidence as a written record which can be verified, and which includes the actions taken, methods of applying for work, types of work sought, dates and places where work was sought, the name of the employer or person who was contacted and the outcome of the contact.

We selected 119 extended benefit payments made to 20 claimants during January 2002 through March 2002. Of these 119 payments, we found 81 cases where claimants either did not submit work search records or submitted incomplete records. Benefits paid to these claimants totaled \$26,752 for the period tested. Of this amount, \$13,376 was paid from federal funds.

Cause of Condition

The Department notified claimants of the work search documentation requirements, but did not implement an adequate method of monitoring compliance or retaining documentation of work search efforts.

Effect of Condition

Because the Department did not have adequate controls or documentation to ensure all claimants were eligible, we are questioning federal payments of \$13,376.

Recommendations

We recommend the Department continue to work on its system of monitoring and documenting work search efforts of claimants being paid extended benefits.

Department's Response

Background: During a high unemployment period in 1981, an amendment to Extended Benefits (EB) law added, among other things, the more stringent work search criteria requiring claimants to provide tangible evidence of a systematic and sustained effort to find work. These requirements were suspended from March 13, 1993 until January 1, 1995. By that time the economy in Washington had recovered and the projection was that we would not be in an EB period for an extended period of time.

In 1995, Washington, along with the majority of other states, implemented the Interactive Voice Response (IVR) method of filing continued claims by telephone. The IVR allows claimants to call in their claim each week, answering the same questions they would answer if filing by paper. At the time IVR was implemented there was no longer work search on the paper claim. Since IVR mirrored the paper claim, work search reporting was not programmed as a part of IVR, the same as other states.

An issue paper was presented to the U.S. Department of Labor (DOL) approved by the UI Director's Committee at a UI Director's Conference in October of 1998, by the then Assistant Commissioner of Unemployment Insurance. The paper outlined the difficulties of complying with EB work search requirements using the IVR and call center environments. Though the committee agreed, no action was taken because everyone believed Congress would repeal the more stringent work search requirements.

Effective July 1, 1999, all claimants in Washington were held to a higher threshold regarding their work search activity because of a change in Washington law. Revised Code of Washington (RCW) 50.20.240 (the job search monitoring law) requires claimants to show they are actively seeking work each week by keeping a job search log providing the same elements of information that are in the federal EB law. Each week a random sample of claimants is contacted by letter telling them to report in person to a WorkSource office and present their work search log for review. A portion of these also has a second review during which work search contacts will be verified.

The UI Assistant Commissioner presented the work search-monitoring program to DOL as our proposal to meet the EB work search requirements. DOL said the plan made sense. Based on that information we designed our GUIDE system to have EB claimants use a work search log and to include EB claimants in the monitoring sample.

EB Implementation: On December 21, 2001, we were notified by DOL that we would enter an EB period beginning January 6, 2002. This was a very short time frame to implement a very complex program. Our primary goal, which we achieved, was to ensure that all claimants would receive timely EB payments.

After GUIDE design for EB was complete, the DOL regional office told us that they didn't think our plan met the requirement of EB work search regulations. We received final word from DOL on January 18, 2002, that we would be required to gather work search information from claimants each week as a part of the continued claim certification process. We immediately began redesign of the IVR and Internet weekly claim systems to capture all the work search elements required by federal. For those still using paper weekly claims, work search could be reported on the back of the form.

The continued claim form was revised and in use about February 8, 2002. The redesign requirements for IVR to record work search for all EB claimants were extensive, expensive and had to be programmed by our IVR vendor. In addition, there were capacity problems with the 1-800 site, which delayed implementation at that location.

The gathering of work search information at the IVR locations began on February 16, 2002, and was completed by April 15, 2002. We sent letters at specific intervals to all claimants using IVR or the Internet to make their weekly claims, asking them to send us their work search logs from January 6, 2002, until the functionality on the IVR was implemented. We had to delay the requests for those logs because the work search logs could be requested for a work search monitoring interview by WorkSource and subsequently for verification as a part of our job search monitoring program required by RCW 50.20.240. All work search logs received for that period of time have been retained. We have a total of 53,570 EB work search logs with each log covering up to four weeks of work search.

Based on the review of EB work search records between January 6, 2002 and April 12, 2002, there were a total of 1,621 cases where we questioned claimants' EB work search and "issues" were set, examined and resolved.

The auditor's exception states: "... we found 81 cases where claimants either did not submit work search records or submitted incomplete records." It is likely that some of those not found were used for a different purpose such as job search monitoring. It does not mean that the claimants did not submit the work search. In addition this was a very busy time with our priority being, as always, timely payment of benefits. As a result many of the logs were boxed up and archived.

The state and federal eligibility requirements for work search require that each individual provides tangible evidence to the employment security department that he or she has engaged in a systematic and sustained effort to obtain work during each week. There has been considerable confusion and controversy

regarding this requirement since its re-instatement in 1995. More than once, Congress has considered legislation that would repeal the stricter EB work search requirement. We feel we proceeded in good faith that our proposal for including EB claimants in the job search-monitoring program had DOL's approval and the EB work search requirement was going to be eliminated from the EB law. When told to the contrary, we quickly proceeded to implement a new system.

As soon as we received the new direction from Department of Labor on January 18, 2002, that the more stringent work search requirements would remain, we immediately started the programming changes that were required to comply. It is important to note that during this time we were already set up to pay EB in a timely manner and no EB payments were delayed due to the additional highly complex programming needed.

We continued with our plan to include EB claimants in the work search-monitoring program. Between January 6, 2002, the effective date of EB, and April 12, 2002, 1,882 claimants were called in to WorkSource Centers for work search monitoring which is more than the federal law requires.

We did not receive the final decision on work search from DOL until 12 days after the start of the EB program. We feel that we made a good faith effort to comply with the work search requirement. We were faced with complex programming and hardware and software changes to GUIDE, the time necessary for the IVR vendor to make changes including the purchase and installing of a new server and notification to our claimants. It is important to remember that while all of this work was going on behind the scenes our claimants continued to receive the timely payment of benefits.

Auditor's Concluding Remarks

We appreciate the Department's commitment to resolve the issues identified in the finding. We also appreciate the cooperation extended to us throughout the audit by Department staff. We will review the status of corrective action during our next audit.

Applicable Laws and Regulations

Title 20, Code of Federal Regulations, Section 615.8(g) states:

The State law shall provide ... that an individual who claims Extended Benefits shall be required to make a systematic and sustained effort to search for work which is "suitable work" ... throughout each week beginning with the week following the week in which the individual is furnished a written notice of classification of job prospects ... and to furnish to the State agency with each claim tangible evidence of such efforts.

If the individual fails to thus search for work, or to furnish tangible evidence of such efforts, he/she shall be ineligible for Extended Benefits for the week in which the failure occurred and thereafter until the individual is employed in at least four weeks with wages from such employment totaling not less than four times the individual's weekly benefit amount, as provided by the applicable State law.

02-4 The Employment Security Department did not comply with regulations for allocating payroll costs for four Department of Labor federal programs.

Background

The Employment Security Department administers several programs that are partially funded by the U.S. Department of Labor. A significant amount of the Department's expenditures for salaries and benefits is charged to the federal portion of these programs. In general, federal regulations require that employees whose activities are split between a federal program and other work must charge their time to each activity based on actual time worked. Charges to federal grants for salaries and benefits initially may be based on estimates, but must be reasonable and must be adjusted quarterly after comparing the estimates to actual activity reports. Alternative time distribution systems that do not use reports of actual time worked must have federal approval before they are put in use.

Description of Condition

We reviewed time reports for Department employees in several offices and programs and found a pattern of daily time distributions being charged directly to the federal programs with the same percentage allocations every pay period, rather than for actual time worked. The Department stated it has established these percentages based on historical estimates, but we found no current documents to demonstrate the Department's analysis of activities and determination of reasonable estimates. In addition, the Department did not reconcile or adjust any of the historical estimates to actual work on a quarterly basis, nor did it obtain the required grantor approval for the use of an alternate method. This is a repeat of a condition reported in the State of Washington Single Audit Report in fiscal years 2000 and 2001.

Cause of Condition

The Department stated it is difficult to allocate time properly for certain staff positions because employees in these positions work on or support a great number of programs or projects and cannot efficiently track their time. Managers stated they have been unable to devise a method of accounting for federal costs that will not be too cumbersome for the type of employee activity we reviewed. They believe the estimates are reasonable over time, but acknowledge they have no documentation to support this analysis.

To its credit, the Department has made improvement in preparing time records for some federal programs, but it was not able to fully implement corrective action during our audit period.

Effect of Condition

Because the time distribution method used is not in compliance with federal requirements, we question the following amounts for fiscal year 2002:

Federal Program	CFDA Number	Questioned Costs
Unemployment Insurance	17.225	\$32,080
Employment Service	17.207	89,069
Workforce Investment Act Adult Program	17.258	105,125
Workforce Investment Act – Dislocated Workers	17.260	48,403
Total		\$274,677

Recommendations

We recommend the Department reimburse the appropriate federal programs for any costs the grantor determines to be unallowable. We also recommend the Department ensure employees accurately report

their time. We further recommend the Department consult with the grantor to determine a reasonable and acceptable way to account for payroll costs charged to federal funds.

Department's Response

The auditor has questioned the time charges of several employees because of the appearance of repetition. In the case of many of the employees, they provide services that may be repetitive in nature. Also, several of the employees through the performance of their duties benefit multiple programs with a single activity. The department, by having these employees charge their time to several programs, is attempting to ensure that charges to federal programs are fair and equitable. To support this, we are providing explanatory information as to the job duties of employees whose time was questioned as well as the rationale for this methodology. They are grouped by agency division and position for clarity.

WorkSource Operations Division (WSOD)

Administrative Support Functions:

1. Divisional Administrative Assistant

This employee supported the Division's Assistant Commissioner in his meetings and day to day work dealing with the operations and policy implementation of programs and services delivered in the agency's field offices. These programs and services included Employment Services, Reemployment Strategies Workgroup, Unemployment Insurance Services, Training/Labor Disputes, Claimant Placement Program, Facilities, and Employer Outreach. This employee provided support as liaison to the four Regions reporting to the Assistant Commissioner. Also, as a member of the WSOD Leadership Team, the Administrative Assistant participated in strategic planning and other developmental activities in management meetings. She also provided support to the division by ordering office supplies and furniture and processing travel, conference and training requests. This work was relevant to the programs to which her salary was charged.

2. Secretary Administrative – West Region

This employee works as part of the West region office team that provides administrative oversight and management support to local area operations. We believe that because the position supports a variety of programs, the funding sources used were the most appropriate for charging her time and were reflective of the work she performed.

The very nature of these duties supports all funding sources administered within the region. As such, this employee's time charging is an attempt to fairly charge those programs benefiting from the services she provides.

3. Secretary Senior – WorkSource Everett

This employee's duties are as administrative support. Therefore, most of her responsibilities/duties involve working with personnel, time sheets, inventory, and supplies. In addition she handles phone calls and in-person inquiries relating to filing for UI. She also directs UI claimants to the TeleCenters. This employee also provides services supporting all aspects of employment services at this location. Her time charges are accurate and reflective of the benefiting programs.

WorkSource Specialists:

1. WorkSource Specialist 4 – Mount Vernon Office

The time charges posted by this employee are based on actual hours worked. Most of his hours worked were focused on managing his caseload by providing some core but primarily intensive services. The funding source used to account for this employee's time was the appropriate one. During this period the

employee managed a caseload of Dislocated Workers including clients eligible for Trade Act and North America Free Trade Agreement (NAFTA), addressing a wide array of client needs.

2. WorkSource Specialist 4 – Columbia Gorge Office

This employee is currently a WorkFirst counselor located at our local WorkSource office in White Salmon. She also has knowledge of the Unemployment Insurance (UI) program. As a result, staff refer UI claimants to her as well as clients with Employment Service questions. She has been instructed to charge the UI program only for time spent on providing UI services. She occasionally conducts Job Search Interviews, which are also appropriately charged to the UI program.

This employee has also been instructed to charge the Employment Services program for services provided to non-WorkFirst clients. We believe the employee has been instructed to appropriately charge her time to the programs for which the work was performed. She has never been instructed to charge her time on any basis other than the work performed.

3. WorkSource Specialist 4 – Spokane

The duties assigned to this employee were appropriate for the codes he was provided and to which he charged his time. These duties included:

- *Power User/Trainer for SKIES (System Knowledge Information Exchange System). System implementation required the local area to have a power user to provide reports from the agency's Data Warehouse. In addition, he was responsible for gathering reporting requirements and documenting those needs, producing reports and/or files and checking reports for accuracy.*
- *Developing and maintaining communication with other power users of the WorkSource partnerships throughout the state; share lessons learned, queries developed, and best practices.*
- *Providing SKIES training, implementation and staff assistance.*

These activities have been appropriately charged to the Employment Service program in support of the WorkSource System and Labor Exchange. This was a full-time position with reporting responsibilities to both the Spokane Area Workforce Development Council (WDC) and the Employment Security Department as SKIES was the system to be used by both parties.

Labor Market and Economic Analysis (LMEA)

1. Data Compiler

Work performed by this employee involved collecting data on employment and wages from agricultural employers in the state of Washington. The Employment Service program has always funded this work, as one of the purposes of this funding is the development of Labor Market Information. Agriculture is a very important industry in Washington State and there needs to be data available on employment and wages for agriculture just as there are for nonagricultural industries. The legislature directed Employment Security to "Produce agricultural labor market information and economic analysis needed to facilitate the efficient and effective mating of the local supply and demand of agricultural labor critical to an effective agricultural labor exchange in Washington State." The reference for this is RCW 50.38.060(5). Unfortunately the legislature did not provide adequate funding for the collection of this data so the agency had to combine funding from more than one source to collect this data.

Employment and Training Division

1. Program Assistant

This employee is the lead support staff and supervises administrative staff for Workforce Investment Act operations. In this capacity, her work is directed to a number of federal grants. The majority of her time is for the Workforce Investment Act (WIA) program. She also worked on Welfare-to-Work, Trade Act (coordinating conferences and meetings and formatting grants), and rapid response in support of the Dislocated Worker program (processing Worker Adjustment and Retraining Notices).

The employee indicated that to the best of her knowledge, her time charges were accurate and appropriately directed to the cost objective. At no time did she charge grants that she did not work on.

2. *ES Program Coordinator 3*

This employee works in the Dislocated Worker Rapid Response program of WIA. Her major allocation of time worked is for rapid response. Her activities are working on the "red flag" report of statewide plant closures. She also addresses questions from the public and state government about this program. The employee stated that the time charged to rapid response is accurate and represents her work on the program.

The employee also worked on WIA administration during this period. She works with WIA program issues with her supervisor, including coordinating WIA and UI related issues. She stated that a small amount of her time is related to the Trade Act, primarily related to its role in the "red flag" report. This includes responding to concerns from participants and the public.

The employee stated that to the best of her knowledge the time shown on her timesheets for this period are accurate. She stated that at no time did she charge grants that she did not work on.

3. *Secretary Administrative*

This employee was a member of the WIA administrative support staff. She stated that her work during this period was mainly directed to WIA administration. She also stated that a minor amount of time was directed to Welfare-to-Work about three to four hours per pay period.

The employee stated that to the best of her knowledge, the charges are appropriate for the cost objective and they are accurate. At no time was work charged to grants that she did not work on.

4. *ES Program Coordinator 3*

The employee stated that the majority of his time was spent working on Workforce Investment Act administration. He co-managed WIA 10% projects such as "Industries of the Future", including the Request for Proposal process. He also spent some of his time working on NAFTA funded projects where he wrote a grant and produced quarterly reports. He also performed analysis of data and prepared information for presentations.

He stated that he made time available to ensure both NAFTA and WIA were charged. The employee stated that his time was directed to the appropriate cost objectives. At no time was work charged to grants that were not worked on.

Auditor's Concluding Remarks

Many of the positions noted by the Department in its response would be considered an indirect cost. That is, a cost that benefits more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. As a result, the salaries and benefits for these positions should be recovered through the Department's indirect cost rate instead of being charged directly to the grant.

We appreciate the Department's efforts to work with our Office and the U.S. Department of Labor to resolve the issues identified in the finding. We also appreciate the cooperation extended to us throughout the audit by Department staff. We will review the status of corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 11(h), states:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - a) More than one Federal award,
 - b) A Federal award and a non-Federal award,
 - c) An indirect cost activity and a direct cost activity,
 - d) Two or more indirect activities which are allocated using different allocation bases, or
 - e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.
 - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

- (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
- (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
- (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment E, Section A(1) and Section C(1)(b), states:

Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost....

Where a governmental unit's department or agency has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefited functions by means of a base which best measures the relative degree of benefit. The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s).

02-5 The State of Washington Military Department did not comply with federal requirements for time and effort reporting, prevailing wages and suspension and debarment.

Background

Under the National Guard Military Operations and Maintenance program (CFDA 12.401), the Department of Defense enters into cooperative agreements with States to provide federal support for services provided by state military departments for leases, real property maintenance and repair, operations and maintenance and minor construction costs. For state fiscal year 2002, the State of Washington Military Department spent \$11,012,356 in federal funds for these purposes.

Description of Condition

During our audit, we found the following internal control weaknesses and instances of noncompliance:

a. Time and effort reporting

For all payroll costs charged directly to federal awards, Federal Office of Management and Budget regulations (Circular A-87, Attachment B, Section 11(h)) require employees to document their time and effort spent on each federal activity monthly. However, if an employee works on only one federal activity, semi-annual certifications signed by the employee or a supervisor also meet federal requirements.

During our review of payroll charges, we noted that the Department did not require salaried employees who worked solely on the Operations and Maintenance grant to prepare semi-annual certifications. In addition, we found one employee who worked on multiple activities who was not keeping monthly time and effort records. The salary and benefits charged to the federal award for this employee were \$51,527.

b. Federal prevailing wages

In general, construction projects funded by federal assistance that exceed \$2,000 are subject to the federal Davis-Bacon Act, which requires contractors and subcontractors to pay their laborers federal prevailing wages. The state of Washington has also established prevailing wage rates and procedures for construction projects funded with state money.

When reviewing the Department's internal controls over payment of prevailing wages, we found that it was not informing contractors of the federal prevailing wage requirements nor requiring that the contractors submit weekly, certified payroll reports as required. For state fiscal year 2002, the Department spent approximately \$3.1 million for construction projects subject to the Davis-Bacon Act. However, it should be noted that the contractors were using state prevailing wage rates, which are comparable to, and in some cases higher, than federal rates.

c. Suspension and debarment

Recipients of federal assistance are required to obtain a certification from potential contractors that would receive in excess of \$100,000 in compensation that states they have not been suspended or debarred from participating in federal programs. When reviewing the Department's internal controls over contracting, we found that it did review the federal list of suspended and debarred parties before awarding contracts, but was not obtaining suspension and debarment certifications for its construction-related contracts as required. For fiscal year 2002, the Department spent approximately \$2.8 million for construction projects that were subject to the suspension and debarment requirement.

Cause of Condition

The Department was unaware of the federal requirements over time and effort. However, it should be noted that during our audit, the Department developed new policies and procedures to comply with this

requirement. In regard to federal prevailing wages, the Department stated that it believed that because it initially paid construction costs with state funds and was subsequently reimbursed by the federal government, it only had to comply with state prevailing wage regulations. For suspension and debarment, the Department relied on standard contract language prepared by another state agency that did not contain the required certification.

Effect of Condition

Time and effort reporting

Without proper time and effort records, we are unable to substantiate the accuracy of the payroll costs charged to this program. As a result, we are questioning \$51,527 charged to the grant. For the salaried employees who did not prepare a semi-annual certification, we were able to review alternative evidence that supported their effort.

Federal prevailing wages

If contractors and subcontractors do not obtain a federal wage register that establishes the prevailing wages for their projects, there is risk that the laborers and mechanics will not be paid the proper wages.

Suspension and debarment

If the Department does not obtain suspension and debarment certifications, it may be liable for amounts paid to subrecipients and vendors who have been suspended or debarred from receiving federal funds.

Recommendations

We recommend the Department:

- Maintain time and effort records that comply with federal regulations and consult with the federal grantor to determine whether questioned costs should be repaid.
- Update all construction contracts to include the appropriate provisions of the Davis-Bacon Act and develop procedures to obtain certified payroll reports from contractors.
- Obtain suspension and debarment certifications for all current contractors and update all contract language to incorporate this certificate.

Department's Response

Davis Bacon – WMD is reviewing the Davis Bacon requirements with the National Guard Bureau. WMD will comply with all Davis Bacon requirements. WMD will include the necessary requirements in contract terms and conditions that are processed directly by WMD (delegated) and will work with General Administration (GA) to include the requirements in the terms and conditions of contracts processed by them (non-delegated). As was noted in the audit, contractors are using state prevailing wage rates that are comparable to and in most cases higher than federal prevailing rates.

Suspension Debarment – The contract language relied on by WMD was from GA and did not contain the required certification. Contract language for both delegated and non-delegated projects has been changed to incorporate suspension and debarment language in the terms and conditions. A certificate has also been developed and provided to contractors so that they can file the necessary certification to WMD.

Time and Effort – A new policy and procedure has been drafted to comply with these requirements. All employees funded solely by one grant will be required to provide certification that they only worked on that grant. The employees that are funded by state and federal funds, but there is no matching requirement, will

be required to provide monthly time sheets. The time sheets will be recorded in the Time Management System (TMS). The \$51,527 questioned in the audit is substantiated through an agreement in the Master Cooperative Agreement that allowed for a 90% federal and 10% state effort based on historical work performed by the telecommunication specialist. This employee is now completing monthly time sheets.

Auditor Concluding Remarks

We appreciate the Department's commitment to resolve the issues identified in the finding. We also appreciate the cooperation extended to us throughout the audit by Department staff. We will review the status of corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 11(h), states in part:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - a) More than one Federal award,
 - b) A Federal award and a non-Federal award,
 - c) An indirect cost activity and a direct cost activity,
 - d) Two or more indirect activities which are allocated using different allocation bases, or
 - e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - b) They must account for the total activity for which each employee is compensated,

- c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- d) They must be signed by the employee.
- e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Title 29, Code of Federal Regulations, Section 5.5(a) states in part:

The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds ... the following clauses.... (1) Minimum wages. (i) All laborers and mechanics employed or working upon the site of the work ...will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account ... the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics....

Title 29, Code of Federal Regulations, Section 3.3(b) states, in part:

Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

Title 32, Code of Federal Regulations, Section 25.510(b) states:

Certification by participants in lower tier covered transactions. (1) Each participant shall require participants in lower tier covered transactions to include the certification in appendix B *[not included in this finding]* to this part for it and its principals in any proposal submitted in connection with such lower tier covered transactions.

02-6 The Department of Social and Health Services, Division of Vocational Rehabilitation, does not have adequate internal controls over the processing of expenditures for client services.

Background

The Division of Vocational Rehabilitation assists people with disabilities in preparing for, obtaining or retaining employment. The Division provides vocational assessment; treatment for physical and mental disabilities that make it more difficult for its clients to find employment; job preparation and training; job placement; job site analysis and rehabilitation technology; follow-up services; and employment support. Other services include help with independent living and transition from school to work. The Division also provides technical assistance and staff education for businesses and industries. The Division stated its 40 field offices successfully placed 1,230 individuals in jobs during fiscal year 2002.

These services are provided with state and federal funds. The federal portion is awarded by the United States Department of Education under the Vocational Rehabilitation Services program (CFDA 84.126). In fiscal year 2002, the Department spent \$29 million from this grant and an additional \$11.8 million from state funds.

When the Division determines that a person is eligible for services, a counselor works with the client to determine goals and objectives and the resources needed to achieve them. The Division provides goods and/or services to clients by processing expenditures through the Service Tracking and Reporting System.

During the fiscal year 2001 audit, we identified weaknesses related to controls over the processing of expenditures for client services and reported them in the Statewide Accountability Report and in the State of Washington Single Audit Report.

Description of Condition

The Division continues to have inadequate internal controls over expenditures processed through the Service Tracking and Reporting System. We found:

- Duties are not properly separated.
- Counselors have the access rights needed to establish a client in the system, authorize and issue an Authorization for Purchase and approve and make the payment.
- Secretaries and counselor aides can draft and issue an Authorization for Purchase and make the payment without a counselor being involved.
- Counselors, secretaries and counselor aides can have the payment warrant returned to them at the originating field office. This weakness provides the opportunity to create an inappropriate payment, as stated above, and have the warrant returned directly to them.
- Reviews of expenditure transactions, before or after payment, that may provide a compensating control for the inadequate separation of duties are not adequately performed or documented.
- Division policies and procedures for the review of expenditure transactions are not adequate.
- Payment warrants returned to Division field offices are not handled in a manner that provides accountability:
 - a. Field offices had only one person opening the mail and logging the warrants.
 - b. Entries to the logs were missing and incomplete.
 - c. Some returned warrants were not logged.

- d. Cash controls policies and procedures, though incomplete, were not being followed.
- e. There is no supervisory review of the cash accountability log.
- Payments recorded in the system are not reconciled to supporting documentation in the field offices. Without this step output accuracy cannot be verified.
- Clients are not required to provide receipts for, certify to, or identify actual travel information to the Division. Travel can include lodging and mileage needed for individuals to have access to work and/or education.

Cause of Condition

The Division stated it has needed to employ available technology resources and the time of its staff members on other issues, such as the divisional reorganization. It has found it impossible to focus on training personnel about new internal control policies and procedures, including the retention of appropriate supporting documentation when processing payments.

Effect of Condition

These conditions increase the risk that misappropriation or loss could occur and not be detected in a timely manner, if at all. Without supporting documentation, the Division may be charging expenditures to federal funds that are not allowable under the regulations.

Recommendations

We recommend the Division:

- Develop and follow procedures that provide adequate internal controls for processing, documenting and reviewing expenditures.
- Separate the duties for processing payments by restricting access to payment functions in the system.
- Ensure disbursements have adequate supporting documentation.

Department's Response

The Department concurs with the finding. The Division of Vocational Rehabilitation will perform the following to address the auditor's recommendations:

- *The division will establish internal controls for the separation of duties within the STARS system. The STARS system will be updated to electronically ensure separation of duties are maintained beginning with the application phase. In terms of warrants sent to the originating office, the division will strengthen the cash controls and provide training to ensure separation of duties for the handling of cash items.*
- *The division will update the Supervisory AFP review policy. The division will also establish a STARS automated report to include STARS exceptions for Supervisors and Chiefs to review.*
- *The division will strengthen the cash controls policy and provide training to staff. The division will also establish policy for how small offices of 3 or less staff will handle cash controls.*

The division will establish a customer travel policy to include when receipts or certifications are required when purchasing customer travel such as mileage, meals and lodging payments. Procedures will be established to include what's required on the authorization for purchase (AFP) for proper documentation of what is being purchased.

Auditor's Concluding Remarks

We appreciate the Department's efforts in addressing this finding and will review the agency's progress toward improving internal controls during our next regular audit.

Applicable Laws and Regulations

The Office of Financial Management *State Administrative and Accounting Manual* addresses basic principles of internal controls as follows:

Section 85.32.10 states

It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct. Agencies are responsible for processing payments to authorized vendors, contractors, and others providing goods and services to the agency. Agencies are to establish and implement procedures following generally accepted accounting principles. At a minimum, agencies are also to establish and implement the following:

1. Controls to ensure that all expenditures/expenses and disbursements are for lawful and proper purposes and recorded in a timely manner (refer to Chapter 20 of this manual for guidance related to internal control procedures),
2. Procedures to ensure prompt and accurate payment of authorized obligations, and
3. Procedures to control cash disbursements.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Section .300 states:

The auditee shall:...

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs....

02-7 The Department of Social and Health Services, Division of Child Support, did not have adequate supporting documentation for printing and payroll costs.

Background

The Division of Child Support provides services to establish paternity, enforce support obligations, and locate parents owing child support. These activities are partially funded by the federal Child Support Enforcement program (CFDA 93.563). The Division is responsible for disbursing child support received from non-custodial parents to custodial parents.

For fiscal year 2002, the Division charged \$61,252,787 to its federal grant. Among the expenditures charged are costs for printing services and personnel. For fiscal year 2002, the Division expended \$66 million from state and federal funds for salaries and benefits to administer the program. Annually, the Division requests and receives over \$1.5 million in printing and related services from the Washington State Department of Printing. These services may include:

- Printing child support checks.
- Providing envelopes for mailing child support checks.
- Labor costs for stuffing child support checks into envelopes.
- Postage for mailing child support checks.
- Providing miscellaneous paper and other printing services.

State agencies are required to order all printing services through the State Printer.

Description of Condition

a. Printing costs

We found that payments made to the State Printer did not have adequate support documentation. Billing invoices did not include the necessary detail of goods, services and other miscellaneous charges, nor did they provide a detailed unit description, number of units provided, or a unit cost to crosscheck the items ordered/received and their related total charges. The invoices identified only a general category (i.e., material, labor, postage, etc.) and its corresponding total charge.

We tested a March 2002 payment of \$95,489 for 51 separate billing invoices received from the State Printer and found that none of the invoices had adequate detail to identify whether total charges were correct. Sixty-six percent of this payment was charged to the federal Child Support Enforcement grant and the remainder was paid with state funds.

b. Payroll time and effort

In our fiscal year 2001 audit, we found \$194,097 in salaries and benefits for non-Division employees who did not complete required time sheets or use any other allowable method for supporting time charged to the federal program. This condition was reported in Finding No. 01-15 of our fiscal year 2001 State of Washington Single Audit Report.

We reviewed the Division's corrective action taken during fiscal year 2002 and noted that it had reversed many of the charges made to the federal grant for non-Division employees. However, we found \$38,086 in payroll costs for 17 employees who did not prepare time records that supported the amount charged to the federal grant.

Cause of Condition

The Division does not gather sufficient evidence to determine whether charges for goods and services provided are accurate and the State Printer does not provide the required itemized statement of charges. In regard to the unsupported payroll costs, when the Division attempted to reverse the costs of the non-

Division employees charged to the grant, it used an incomplete estimate, which was ultimately less than the actual costs charged.

Effect of Condition

Printing costs

Accepting and paying for generalized and nonspecific charges increases the risk that management will not detect inappropriate or unintentional charges in a timely manner, if at all. In addition, the invoices presented by the State Printer do not provide sufficient information for the Division to reconcile the accuracy of goods and services provided to their related charges. As a result, the agency cannot determine if billings are accurate. In regard to the payment of \$95,489, we obtained additional evidence of support directly from the State Printer, and we will not question the costs.

Payroll time and effort

Without proper time and effort records, we are unable to substantiate the accuracy of the payroll costs charged to federal funds for this program. As a result, we are questioning \$38,086 in overcharges to the federal Child Support Enforcement program. Additionally, these unallowable costs affected the state's matching share and resulted in the reporting of incorrect expenditure amounts to the grantor.

Recommendations

We recommend that the Division implement policies and procedures that require the receipt of adequate and appropriate support documentation from all vendors, including the State Printer, prior to making payment.

We recommend the Division continue to strengthen its corrective action regarding federal charges for payroll costs.

Department's Response

The Department concurs with the audit finding.

Printing Costs:

Since the time of the Auditor's initial review, the Division obtained Job Cost Sheets from the State Printer for 32 of the 51 invoices referenced above. These Job Cost Sheets were not available at the time of the auditor's initial testing of the State Printing payment batches for March 2002. In a second review by the auditors of the State Printer March 2002 batch; the auditors approved the use of the Job Cost Sheets as adequate payment documentation. In the cases where Job Cost Sheets did not apply, the purchase orders from the State Printer were used to verify the invoices. These include printer paper orders where the paper is acquired by the State Printer through a bid process. The Division now requires Job Cost Sheets and/or State Printer purchase orders for all State Printer invoice billings.

The Accounts Payable desk manual will be revised to include procedures for correctly handling the nondescript invoices and what is the acceptable form of invoice to document what has been received for payment.

Payroll Costs:

A Corrective Action Plan has been developed and implementation has begun. As part of the Corrective Action Plan, the Division of Child Support (DCS) will review federal regulations regarding staff charges, establish time and effort documentation where necessary.

Auditor's Concluding Remarks

We appreciate the Department's prompt and thorough response to this issue.

Applicable Laws and Regulations

The Washington Office of Financial Management *State Administrative and Accounting Manual* addresses basic principles of internal control as follows:

SAAM 85.32.10 states in part, "It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct. Agencies are responsible for processing payments to authorized vendors, contractors and others providing goods and services to the agency. Agencies are to establish and implement procedures following generally accepted accounting principles."

SAAM 85.32.10 states in part, "Prior to payment authorization, agencies are to verify that the goods and services received comply with the specifications indicated on the purchase documents."

SAAM 85.32.40.c states in part, "Audit disbursement documents for the following:

- Quantities indicated on the invoice agree with those documented as received on the receiving report.
- Unit prices on the invoice agree with those indicated on the disbursement document.
- Extensions and footings are correct.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section C.1 states, in part:

...Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards under the provisions of this Circular...

d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit....

j. Be adequately documented.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 11.h, states:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - a) More than one Federal award,
 - b) A Federal award and a non-Federal award,
 - c) An indirect cost activity and a direct cost activity,
 - d) Two or more indirect activities which are allocated using different allocation bases, or
 - e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - b) They must account for the total activity for which each employee is compensated,
 - c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - d) They must be signed by the employee.
 - e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

02-8 The Department of Social and Health Services, Economic Services Administration, does not perform adequate or timely reviews to ensure the allowability of child care payments made to clients and vendors from federal and state funds.

Background

The Department of Social and Health Services is responsible for making payments to childcare providers for eligible clients and to clients on behalf of in-home providers. The majority of these payments are issued through the Working Connections Child Care program and the Seasonal Child Care program. The Economic Services Administration, Division of Child Care and Early Learning administers these programs and processes payments through the Social Services Payment System. During fiscal year 2002, these two programs were funded as follows:

Funding Source	Working Connections Child Care	Seasonal Child Care	Total by Source
State	\$ 46,000,000	\$ 690,236	\$ 46,690,236
Federal - CFDA 93.575 - Child Care Development Fund-Discretionary	99,338,663	8,474,891	107,813,554
Federal - CFDA 93.596 - Child Care Development Fund Mandatory / Matching	55,388,942		55,388,942
Federal - CFDA 93.558 -Temporary Assistance to Needy Families	89,951,410		89,951,410
Federal - CFDA 93.667 – Social Services Block Grant	25,890	85,605	111,495
Total by Program	\$ 290,704,905	\$ 9,250,732	\$ 299,955,637

During the fiscal year 1999 and 2000 audits, we identified and reported inadequate controls over payments from the Working Connections Child Care program. The Department's corrective action plan detailed the steps it would take to resolve the conditions.

The Department's corrective action stated it would develop an electronic Supervisory Review Form (for monthly case file reviews) and an electronic Payment Alert Report (for identification of possible overpayments) and would provide training on the use of these forms. The Department also stated its internal audit staff would complete five audits of child care providers, including reviews of billing documentation and attendance records.

The corrective action plan was followed by a management memorandum to all administrators, regional administrators, and regional program coordinators. This memorandum required that:

- Program supervisors, using the Supervisory Review Form, review a minimum of three child-care cases for each authorizing worker each month. (Data on this form is automatically collected into the Case Review Report.)
- Regional and headquarters staff access the Case Review Report on a regular basis to check for compliance with the above monitoring standard. (This report includes data from the Supervisory Review Forms for each applicable office.)
- Program supervisors access the Payment Alert Report on the last working day of the month and assign the authorizing worker the responsibility to review the cases, complete the electronic overpayment form, and submit the appropriate forms to the Department's Office of Financial Recovery.
- Region and headquarters staff electronically review the Payment Alert Summary Report by the tenth of

the following month. (This report lists the number and total amount of all overpayments identified on the Payment Alert Report for each Office.)

Description of Condition

Working Connections Child Care

During the current audit, we performed a follow-up review of the Department's Working Connections corrective action plan at four Community Services offices in Region 6 (Kelso, Shelton, Chehalis and Aberdeen), Region 6 headquarters and the state office of the Division of Child Care and Early Learning.

1. We found the following conditions related to the Case Review Report:

- Three of six supervisors responsible for case file reviews in the four Community Services Offices were not using the required electronic Supervisory Review Form. This prevents data from being collected and stored electronically in the Case Review Report so the Region and headquarters offices can perform their required reviews.
- Neither Division headquarters staff members nor Region 6 staff members had performed timely reviews of the Reports to determine if the Offices were properly following procedures. Region 6 had not reviewed reports in the past eight months because the responsible staff member was assigned to another project and the Region did not assign a different staff member to perform the reviews.

2. We found the following conditions related to the Payment Alert and Summary Reports:

- Five of six supervisors responsible for the monthly review of the Payment Alert Report in the Community Services Offices were not performing timely reviews. Most of the reviews were months behind. This creates a very high risk that excess payments to clients and vendors are not being researched and recovered, if necessary. We did find that, on the occasions when completed reviews identified overpayments, the information was generally forwarded appropriately for recovery.
- Following an overpayment review, the Office staff member is to complete an electronic overpayment notice. If the worker does not electronically mark the box noting the overpayment was identified by use of the Payment Alert Report, the data is not captured on the Summary Report and is not available for review by Region 6 or headquarters.
- Neither Division headquarters staff members nor Region 6 staff members performed timely reviews of the Summary Report to determine if the Offices were properly following procedures. Region 6 had not reviewed summaries in the past eight months because the responsible staff member was assigned to another project during this time and the Region did not assign a different staff member to perform the reviews.
- Use of the Payment Alert Report is not sufficient by itself to identify all overpayments, because the Report cannot identify cases in which providers and clients may have billed for services not actually provided.

We also found the Department is not monitoring provider billings to ensure they are adequately supported by attendance records. The Department's internal auditors, Operations Review and Consultation, did complete the audits of providers as called for in the Corrective Action Plan. The internal auditors notified us that they had identified significant Working Connections overpayments made within the last three fiscal years to four of the seven child care providers reviewed. The auditors found the overpayments when they compared provider attendance records to provider invoices and found inadequate documentation that the billed services were provided. We have reviewed the auditors' reports and agree with the procedures completed and conclusions reached. The overpayments amounted to \$424,000. The Department was not able to identify the exact sources of funds used to pay these providers before the audit had concluded.

However, we estimate the majority of these costs were charged to the federal programs listed above.

Seasonal Child Care

We found a similar monitoring weakness in the Seasonal Child Care program. The Department's Division of Fraud Investigation currently is performing procedures similar to those described above at 47 Seasonal Child Care providers in Region 1. It has completed a records review of 11 providers for time spans ranging from 17 months to eight years. We have reviewed the Division's work completed to date and agree with its procedures and its conclusion that the providers have maintained inadequate support for the actual provision of services to children. Currently, the Division has identified unsupported costs of \$810,000. The Department will complete a review to determine the exact source of funds used to pay these 11 providers; however, its preliminary estimate is as follows:

CFDA 93.575	Child Care Development Fund	\$ 809,919
CFDA 93.667	Social Services Block Grant	\$ 81

During our review, we found that the families we tested were, in fact, eligible for child care services. However, without adequate attendance records, the Department cannot verify that the eligible children actually attended on the days billed.

Cause of Condition

The Department stated these conditions are due to staff turnover, lack of training and placing a higher priority on other areas.

Effect of Condition

Without adequate or timely reviews of child care payments, the Department cannot be assured that the payments issued to clients and vendors are valid. This weakness increases the risk that clients and providers are paid in excess of the amounts to which they are entitled, with no subsequent recovery.

For Seasonal Child Care we are questioning the \$809,919 charged to the Child Care Development Fund. We estimate the total unsupported costs at the end of the Division's investigation will be at least \$1.5 million. For Working Connections Child Care we are questioning \$424,000 charged to the federal awards.

Recommendations

We recommend the Department:

- Ensure staff members perform all required reviews on a timely basis, including those for months not previously reviewed, and send identified overpayments to Financial Recovery immediately.
- Provide training on the use of electronic forms and required reports.
- Develop an adequate procedure to compare billings submitted for payment to attendance records.
- Continue its efforts to identify which grant funded the \$424,000 in questioned costs for the Working Connections Child Care program and the \$810,000 for the Seasonal Child Care program.

Department's Response

The Department concurs with the finding. The Economic Services Administration concurs with the auditor's finding that previous corrective action plans developed to ensure the performance of adequate and timely reviews of childcare payments were not sufficiently implemented nor monitored.

The Division of Child Care and Early Learning (DCCEL) and the Community Services Division (CSD) have issued a joint memo to regional management staff requiring the immediate implementation of the

required supervisory reviews. DCCEL headquarters staff will monitor the reviews on a monthly basis and provide the CSD Director with routine reports on the compliance status of Community Service Office and Regional Office monitoring efforts. In addition, the CSD Director has established supervisory childcare case audits as one of nine performance issues to be monitored with Regional Administrators. Issues of non-compliance will be discussed with respective Regional Administrators during weekly phone calls designed to monitor regional performance in the identified performance areas. The Directors of the DCCEL and CSD will present additional oversight measures that address the training issues in the final corrective action plan established in response to the auditor's finding.

With regard to Working Connections Child Care questioned costs identified by State Auditors Office (SAO), we would like to add some additional information. As SAO describes in the finding, part of our corrective action plan was to have the internal audit staff complete five audits of child care providers. The Office of Review and Consultation (ORC) did these five audits; three had overpayments and two had underpayments with a total overpayment of \$48,917.98. Rather than address only these five audits, which were part of the agency's corrective action plan, SAO included seven ORC audits conducted over a three-year period (which includes a period outside of the agency's corrective action plan and fiscal year 2002). SAO's decision to include audits covering a three -year period, rather than the five audits conducted as part of the Corrective Action Plan skews the over-all picture. Therefore the actual questioned costs as part of the fiscal year 2002 audit should be stated as \$48,917.98, not the \$424,000 that is identified above.

The department will identify the funding sources in question and complete necessary collection action.

Auditor's Concluding Remarks

We have included three years of the Department's Office of Review and Consultation audit results to show the extent of the weaknesses. Including these results does not skew the overall picture, as these weaknesses are not isolated to fiscal year 2002, but to our knowledge, expands to at least a three-year period.

We appreciate the Department's cooperation during the course of our audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Subpart A, Section 105, states in part:

Questioned cost means a cost that is questioned by the auditor because of an audit finding: ...

(2) Where the costs, at the time of the audit, are not supported by adequate documentation...

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section C.1 states, in part:

To be allowable under Federal awards, costs must meet the following general criteria:...

(j) Be adequately documented.

The state of Washington Office of Financial Management's State Administrative & Accounting Manual, Section 85.32.10 states in part:

It is the responsibility of the agency head, or authorized designee, to certify that all expenditures/expenses and disbursements are proper and correct...At a minimum, agencies are also to establish and implement the following:

1. Controls to ensure that all expenditures/expenses and disbursements are for lawful and proper purposes...

2. Procedures to ensure prompt and accurate payment of authorized obligations, and
3. Procedures to control cash disbursements.

Washington Administrative Code 388-155-460 states in part:

Home records. The licensee must maintain the following documentation on the premises:

- (1) The attendance records, completed daily, including arrival and departure times...

02-9 The Department of Social and Health Services, Economic Services Administration, is not in compliance with eligibility requirements for the Temporary Assistance to Needy Families program.

Background

The Department of Social and Health Services, Economic Services Administration is responsible for administering the federal Temporary Assistance to Needy Families program (CFDA 93.558). Federal regulations require each state to maintain a certain amount of state-funded expenditures each year or face financial penalties. The program was funded during fiscal year 2002 with \$152,517,309 in federal funds and \$174,770,715 in state funds.

Major objectives of this program are to provide time-limited assistance to needy families with children and to promote job preparation and work opportunities for the parents. As long as minimum requirements are met, states have flexibility in designing programs and determining eligibility requirements and may use grant funds to provide cash or non-cash assistance. To be eligible under federal requirements, a family generally must include a child under 18 living with the parents and must qualify as needy under a state's criteria. The State of Washington has also specified that, with certain exceptions, applicants must provide Social Security numbers in order to receive program benefits and cannot be incarcerated.

Description of Condition

During our audit of Program claims and benefits, we tested various eligibility requirements for the period January through March 2002. We found instances of noncompliance with eligibility requirements in the following areas:

- a. We tested income requirements of 46 families by comparing income records from the Employment Security Department, along with the number of family members, with the amounts of program assistance provided. We found 12 instances where the Department paid families more Program funds than those to which they were actually entitled considering their incomes and number of family members. Total overpayments in these 12 cases for the three-month period amounted to \$14,628
- b. We tested the validity of Social Security numbers for 92 program recipients and found three cases where benefits were paid even though the recipients had provided no numbers at all or had provided numbers that were invalid according to Social Security data. These latter cases occurred in spite of the fact that the Department receives Social Security alerts informing it which numbers provided by recipients are invalid. Total program payments for these ineligible recipients for the three-month period amounted to \$5,371.50.

As a result of our testing, we also found six instances where invalid numbers appeared to have been entered because of Departmental error, rather than because of inaccurate information provided by the clients. The errors were usually the result of number transposition when entering data to the records. Program payments in these instances, which we determined were probably valid in spite of the incorrect numbers, amounted to a total of \$7,096.

- c. We compared the records of 19 recipients with Department of Corrections records and found one case where a client received a total of \$212 in program assistance during a two-month period when the client was in prison and otherwise ineligible for federal aid assistance.

Cause of Condition

The Department attributed these monitoring weaknesses to staff turnover, lack of training, and other priorities.

Effect of Condition

Clients who may not be eligible are receiving benefits provided by both state and federal funds. In

addition, failure to use all resources available for verifying eligibility could leave the Department susceptible to fraud and could lead to a reduction in federal grant funds. The Department estimates that \$10,106 was charged to the federal program and \$10,106 was charged to state funds. Accordingly, we are questioning the federal portion.

Recommendations

We recommend the Department implement the following controls:

- a. Institute periodic comparisons of information provided by recipients with applicable records maintained with other State agencies and investigate any discrepancies.
- b. Require employees to obtain Social Security numbers in all cases and investigate Social Security Administration alerts regarding invalid numbers.

Department's Response

The SAO audit involved three program areas; TANF income eligibility, validity of Social Security numbers used by recipients, and receipt of benefits by incarcerated persons.

Economic Services Administration concurs with the auditor's finding that it should use available information, some gathered and maintained by other State agencies, in periodic comparisons of client/recipient information. Discrepancies should be investigated and payment errors corrected. Improved use of technology and automation will aid in the detection of cessation of incorrect payments.

CSO field staff has a means available to validate SSN information. Operationally, we can manually verify questionable SSNs if necessary though a labor-intensive process. The solution and Corrective Action Plan (CAP) will address staff training on existing processes. All financial staff will be required to attend system interface and alerts training.

- *Local office staff already knew of several of the TANF income eligibility discrepancies prior to the auditor visit and corrective payment actions were in process.*
- *The automated eligibility system does run income related cross-matches on cases when a review is initiated. Reduced staffing levels may have contributed to staff's inability to react to all potential claims timely. ESA is exploring the possibility of contracting with "TALX", an automated system that instantly provides wage-based income verification.*
- *The automated alerts occur at application and every 5 months thereafter if the number is an error. ACES interface and alert training will help significantly as well as making the Social Security on-line query (SOLQ) process simpler.*

We are investigating the feasibility of building a cross-match to Department of Corrections data. Experience has shown that our clients often are incarcerated for short periods of time and their eligibility for benefits is unchanged. We will continue to gather information on this issue.

Auditor's Concluding Remarks

We greatly appreciate the cooperation and assistance received throughout this part of the audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Section .300 states in part:

The auditee shall:...

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs....

Washington Administrative Code 388-478-0035 describes the maximum earned income limits for Program beneficiaries relative to the number of family members.

Washington Administrative Code 388-476-0005 states in part:

- (1) With certain exceptions, each person who applies for or receives cash, medical or food assistance benefits must provide to the department a Social Security Number (SSN) or numbers if more than one has been issued.
- (2) If the person is unable to provide the SSN, either because it is not known or has not been issued, the person must:
 - (a) Apply for the SSN;
 - (b) Provide proof that the SSN has been applied for; and
 - (c) Provide the SSN when it is received.
- (3) Assistance will not be delayed, denied or terminated pending the issuance of an SSN by the Social Security Administration. However, a person who does not comply with these requirements is not eligible for assistance.

The Revised Code of Washington 74.08.025 states in part:

- (1) Public assistance may be awarded to any applicant...(c) who is not an inmate of a public institution...(Auditor's note: There are some exceptions that do not apply in this case).

02-10 The Department of Social and Health Services, Economic Services Administration, did not comply with federal cost principles for charging terminal leave payments.

Description of Condition

In February 2002, the U.S Department of Health and Human Services (HHS) informed the state of Washington that its practice of treating terminal leave as a direct cost was not in compliance with federal cost principles. Terminal leave payments are lump-sum payments of unused sick and annual leave to employees upon their separation from state service. Federal regulations require these payments to be allocated as a general administrative expense to all activities of the governmental unit, rather than being charged as a direct cost to a particular federal award.

During our audit of the Washington State Department of Social and Health Services, we found payments of terminal leave were charged directly to the federal Child Care and Development Fund (CFDA 93.575).

Cause of Condition

The Department was aware it needed to adjust its current policy of charging terminal leave to comply with federal requirements, but was unable to revise its policy during our audit period and it did not adjust its expenditures charged to the federal grant to correct this error for state fiscal year 2002.

Effect of Condition

We are questioning \$37,673 of terminal leave paid to childcare licensors and Department headquarters policy staff. These payments were charged directly to the Childcare and Development Fund, which is unallowable.

Recommendation

We agree with the federal grantor's recommendation that the Department change its current policy to comply with the federal requirements.

Department's Response

The Department concurs with this finding.

As of the end of fiscal year 2002, the division had not completed its corrective action to ensure compliance with the federal requirements. Since then, necessary steps have been taken and implemented to ensure that fiscal year 2003 is in compliance. With regard to the questioned costs in the amount of \$37,673, the division will reallocate the terminal leave payments according to the required methodology.

Auditor's Concluding Remarks

We appreciate the Department's commitment to resolve the issues identified in the finding. We also appreciate the cooperation extended to us throughout the audit by Department staff. We will review the status of corrective action during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, Paragraph 11(d)(3) states:

Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

02-11 The Department of Social and Health Services, Medical Assistance Administration, has not established sufficient internal controls to ensure compliance with Medicaid provisions.

Background

The Washington State Department of Social and Health Services is responsible for administering the state of Washington Title XIX Medicaid program (CFDA 93.778), which receives more than \$2 billion in federal funds annually. These funds, matched almost entirely by additional state funding, pay providers for health care services to certain low-income individuals. Medicaid expenditures include medical assistance payments for eligible recipients for such services as hospitalization, prescription drugs, nursing home stays, outpatient hospital care, and physicians' services. Eligibility for Medicaid assistance is based on categorical (e.g., families and children, aged, blind, and disabled) and financial (e.g., income and resources) status.

Description of Condition

During our audit, we reviewed the Department's internal controls and compliance in several areas including allowable activities, client eligibility, provider eligibility, and provider health and safety standards. We found reportable internal control weaknesses and instances of noncompliance that were material to our audit. These conditions are described below.

a. Payments made for persons with invalid social security numbers or made on behalf of deceased individuals.

A valid social security number (SSN) is required for an individual to be eligible for Medicaid. If a child or any individual does not have a SSN, benefits cannot be denied to such persons, however, the Department is charged with the responsibility of assisting the client in obtaining one. Upon re-certification, the Department must ensure that the client has received a SSN and that it is valid.

To test this requirement, we selected individuals who were Medicaid beneficiaries from July 2001 through October 2001. We analyzed the validity of their SSNs using specialized audit software and records from the U.S. Social Security Administration (SSA). We also analyzed claims that could have been paid after a person had died and identified individuals that could be using a SSN that was assigned to a person reported as being deceased. For this testing, we obtained a valid sample of 639 recipients. This sample was obtained pursuant to the standards set forth by the American Institute of Certified Public Accountants for audit sampling. Our population was categorized into the following groups:

- SSNs that were assigned to persons who were reported as being deceased.
- SSNs that begin with a "9," and therefore invalid.
- SSNs that have never been assigned by SSA.
- SSNs that are outside the bounds of a discontinued series.
- SSNs with the first three digits not issued to any state.
- SSNs that were issued by SSA but not yet assigned to an individual.

After performing materiality calculations on each of the above categories, we also stratified each of the groups by amount. We individually tested all large transactions in each category and selected a random sample from the remaining balance. We are reporting known questioned costs from the large transactions and have projected the test results obtained from the sample to the entire population in the category. The results are provided below.

Total Number of Social Security Numbers in Population	3,769
Number of Social Security Numbers Tested	639
Total Dollars Reviewed	\$3,070,406
Total Dollars Subject to Projection	\$7,067,119

Total Percentage of SSN in the Test Population that were associated with actual internal control and compliance exceptions	50.0%
Total Percentage of Dollars Reviewed that were associated with actual internal control and compliance exceptions	25.4%

Category of Exception	Number Tested	Number of Compliance Exceptions Resulting in Questioned Costs	Known and Projected Questioned Costs
Recipient SSN reported as deceased before 2001	124	48	\$269,915
Recipient SSN reported as deceased during 2001	276	57	354,851
SSN begins with a "9"	70	35	43,547
SSN that has never been assigned by SSA	97	26	136,422
SSN that is outside the bounds of a discontinued series	10	8	1,629
SSN issued but not assigned	27	5	1,318
SSN with first three digits not issued to any state	35	25	12,205
TOTAL	639	204	\$819,887

The questioned costs listed above include both the state and federal share of the claim. The federal share was calculated using an overall federal participation rate of 0.5037, although the rate was higher for some types of services. The total federal portion is \$412,977.

Of the amount questioned in the deceased categories, seven exceptions totaling \$107,985 relate to individuals who were listed as deceased in the SSA Death Master File, but were also listed as living and receiving SSA benefits in other SSA databases. The Department has taken the position that if a person is reported as receiving SSA benefits, this is sufficient evidence that the individual is alive and thus should not be considered an exception. We have discussed the inconsistency between its databases with SSA and believe that these cases should be questioned. This opinion is predicated on the fact that the Department could give us no other evidence to the contrary, other than an individual's receipt of SSA benefits. However, we also acknowledge that SSA should research these cases before a final determination is made.

In addition to the compliance exceptions noted above, we found numerous instances where invalid social security numbers were caused by data entry errors. Based on our review, we are satisfied that these particular invalid numbers were caused by data entry errors and we will not question the costs associated with these errors. However, we are quantifying these costs because their presence in the testing was pervasive and material. These errors indicate multiple control weaknesses both at the level of the worker and at the management level.

Number of Invalid Social Security Numbers Within the Test Population Due To Input Errors	98
Total Dollars Associated with Input Errors	\$273,034

The amount listed above includes both the state and federal share of the claim. The federal share was \$137,526 using a federal participation rate of .5037.

For the remainder of the transactions, we either found no exception or we disclaimed because the charge was represented to have been paid solely with state funds.

Other Exceptions Not Included in Sample

When reviewing claims as part of our annual state compliance audit, we found three Medicaid clients with invalid social security numbers and three clients who had claims paid for services rendered after the date of death. We are questioning \$17,705 in costs paid for these individuals.

Cause and Effect

Factors contributing to this condition include the following:

- In 50% of the cases we reviewed, Department employees were not heeding or investigating the alerts sent by SSA after the Department received notification from SSA that a social security number was invalid or that an individual was deceased. The Department cites the high number of client cases per employee and a lack of training as the reason. Another factor is the perceived need by employees to serve the client even though some eligibility requirements may not have been fully documented.
- The Department is largely dependent on family members and health care facilities to voluntarily inform it of the date of death. This lack of timely notification can lead to cases where claims are paid after the recipient has died. Our testing showed that the majority of claims paid after death were for drug-related claims.
- We also found cases where errors occurred when client data was being transmitted between the Department's client eligibility system and the MMIS system.

If recipients do not have valid social security numbers, they are not eligible to receive federal assistance. Further, claims paid for services rendered after the date of death, with some exceptions, are unallowable. These control weaknesses have broad ramifications. They leave the Department susceptible to client and provider fraud and can subject unknowing citizens to identity theft. As a result of our testing described above, we are questioning a total of \$430,682 charged to federal funds.

b. Basic Health Plus

Basic Health Plus (BHP) is a Medicaid program for children in low-income households. BHP members pay no monthly premiums or co-payments. The Department, with federal participation, pays the entire cost of coverage. Basic Health members are required to report any change in income to the Washington State Health Care Authority. Changes greater than 200 percent of the Federal Poverty Level are reported to the Department. A child's continued eligibility for Basic Health Plus and Medicaid is reviewed once a year through a form that is sent to the parent or guardian. On this form the parent/guardian must disclose any income changes. Our audit of fiscal year 2001 revealed multiple weaknesses in the internal control system used by the Department to ensure the continuing eligibility of children participating in the state's Basic Health Plus plan. We reported the following weaknesses in Finding 01-13 of our fiscal year 2001 report:

- The Department did not require the annual re-certification form to be returned unless the parent/guardian's income changes. It assumed there was no income change if the form was not returned.
- The Department performed an inadequate number of re-certification reviews to determine compliance with eligibility requirements. Every month the Department reviewed only 100 of the potential re-certifications.
- When it did perform re-certification reviews, the Department did not require proof of income from participants.

- The Department did not ensure that it received relevant information from the state Health Care Authority to determine if participants had income changes that would affect Medicaid benefits.

During our current audit, we reviewed the actions taken by the Department to address these weaknesses and found it had made some significant improvements. For example, it is implementing technological changes to the Department's client eligibility systems. These changes will require that all households complete and return the form at the time of their annual review in order to remain eligible. The Department has also increased the random reviews from 100 to 400 monthly.

Declarations of income will be required for all clients whose reported income is close to 200% of Federal Poverty Level (FPL). This will not be required for those under 200% FPL. Additionally, there are no plans at this time to corroborate a client's income declaration with an independent source. We see these issues as continued control weaknesses. However, the *Declaration of Income* policy is currently under review. These controls may yet be incorporated into the control environment pending the recommendations of the review committee.

The majority of corrective actions were not implemented before fiscal year 2002 had ended, and consequently, the internal control weaknesses described above were still in existence during our audit period. As a result, we deem this to be a reportable condition for fiscal year 2002.

c. Provider licensing

To be eligible for Medicaid payments, federal regulations require that health care professionals such as nurses, doctors, and pharmacists be licensed according to state laws and that hospitals, nursing facilities, and intermediate care facilities meet prescribed health and safety standards.

During our audit of fiscal year 2001, our testing revealed material weaknesses in internal controls used by the Department to ensure that providers continue to meet licensing requirements. We reported the following deficiencies in Finding 01-12 of our fiscal year 2001 report:

- The Department's Medical Assistance Administration (MAA) reviews the status of a provider's license when it first establishes a provider in its records. However, the initial approval process was not supervised adequately, and the Department did not follow-up to ensure that providers continued to be licensed and meet other criteria in the standard Core Provider Agreement. We performed a review of 121 selected licenses and found that 13 were not in the records of the Department of Health or the professional licensing boards, 11 of the licenses had actually expired or belonged to individuals who were deceased, and five of the licenses were in the names of individuals other than those listed on the applications. These exceptions resulted in \$9,837,143 in questioned costs in fiscal year 2001.

During our current audit, we reviewed the actions taken by the Department to address these weaknesses and found it had made significant improvements. For example, it has initiated a massive reenrollment of all the providers in its system and is making changes to provider contracts as well as developing a new provider expiration report and adding controls to the Medical Management Information System (MMIS) that would prevent a claim from an ineligible provider from being paid.

However, the majority of these corrective actions were not implemented before fiscal year 2002 had ended, and consequently, the internal control weaknesses described above were still in existence during our audit period. As a result, we deem this to be a reportable condition for fiscal year 2002.

d. Provider Health and Safety Standards – Hospitals

To be eligible for Medicaid payments, federal regulations require that hospital, nursing facilities and intermediate care facilities meet prescribed health and safety standards. The Department of Health (DOH) performs the inspections for hospitals and Aging and Adult Services (AASA) performs the inspections for nursing homes and intermediate care facilities. The Medical Assistance Administration pays the claims to hospitals and nursing homes for their services.

During our audit of fiscal year 2001, we determined that the Department of Social and Health Services had no established protocol to ensure that hospitals serving Medicaid patients meet the prescribed health and safety standards. At that time we found the Department of Health (DOH) to be performing the hospital inspections. However, we also found that there was no communication between DOH, the agency performing the inspections, and the Department of Social and Health Services, the agency paying the claims rendered by the hospitals for their services. Thus it would be possible for a hospital to be noncompliant with the state's health and safety standards yet be paid for its services to Medicaid patients.

During our audit this year we reviewed the actions taken by the Department to address these weaknesses. We were informed that communications have not yet been instituted between the agencies for the audit period but were in the process of being formalized. Since no corrective action was implemented before fiscal year 2002 had ended, the internal control weaknesses described above were still in existence during our audit period. As a result, we deem this to be a reportable condition for fiscal year 2002.

e. Provider Health and Safety Standards – Nursing Homes

Under the Medicaid program, states can provide federal financial assistance for patients receiving services in nursing homes. To qualify for federal participation, the nursing home must meet certain health and safety standards. The Department's Aging and Adult Services Administration (AASA) has primary responsibility for conducting health and safety inspections at nursing facilities. The Department's Medical Assistance Administration (MAA) has primary responsibility for reviewing and paying claims of medical providers. Should AASA find that a nursing facility is not meeting federal standards, the federal grantor (U.S. Department of Health and Human Services) will send the facility a Denial of Payment Notice, with a copy to the Administration. This Notice prohibits the payment of federal funds for any new Medicaid admissions to the facility until the condition is corrected. Payments may still be made for existing Medicaid patients.

During our audit, we found that AASA and MAA did not have a complete record of the nursing homes that were placed on denial of payment status. We selected 21 Denial of Payment (DOP) Notices issued by the federal grantor between July 1, 2001 and January 31, 2002 and compared them with AASA documentation. We found three notices, or 14% of the total, that were not recorded by this Administration. Similarly, we compared the same Notices with MAA logs and found seven, or 33% of the total, that were not recorded by this administration, including the three noted above.

Cause and Effect

We found the method of communicating DOP information between AASA and MAA to be inconsistent and lacking effectiveness. Further, management of MAA did not take the needed steps to ensure that its staff were provided with the information required to prevent inappropriate payments. Because it did not have adequate controls to identify and monitor all nursing homes placed on DOP status, there is a risk that the Department paid claims for ineligible patients.

It should be noted that AASA has informed us that it has designed an alternate system of tracking the facilities on DOP status and reporting these to MAA and believe these changes should remedy this condition.

Recommendations

Invalid Social Security Numbers

We recommend the Department:

- a. Develop internal controls that would require employees to heed alerts sent by the Social Security Administration pertaining to invalid social security numbers.

- b. Require that workers access the State on Line Query to determine the validity of a SSN when enrolling a client. We feel that this would eliminate the input errors and greatly reduce invalid SSNs.
- c. Provide training for staff and management on the federal requirements for SSN and the tools that would enable them to determine invalid SSNs.
- d. Perform regular periodic reviews of all SSNs to determine which clients have died during the interim period.
- e. Establish communications between the Department of Social and Health Services and the Department of Health to determine client deaths.
- f. Remedy known problems between the client eligibility systems and the claims processing systems.
- g. Attempt recovery of unallowable payments already made on behalf of clients having invalid SSN or SSN of deceased individuals and consult with the federal grantor to determine whether questioned costs must be returned to the grantor.

Basic Health Plus Plan

We recommend the Department:

- a. Require declarations of income for all clients not just those close to 200% FPL.
- b. Establish procedures that would corroborate a client's income declaration with an independent source.

Provider Licensing

We have no additional recommendations beyond the actions already planned by the Department.

Provider Health and Safety – Hospitals

- a. Establish communications with the Department of Health.
- b. Establish adequate policies between the Department of Health and the Medical Assistance Administration that would facilitate the reporting of hospitals that are not in compliance with the applicable health and safety standards.

Provider Health and Safety – Nursing Homes

We recommend AASA reconcile its DOP records with the official HHS reports on a monthly basis to ensure its records are complete and notify MAA of all nursing homes placed on DOP status on a monthly basis.

Department's Response

The Department partially concurs with the conditions noted in this finding.

Condition A. Payments made for persons with invalid social security numbers or made on behalf of deceased individuals.

The Department does not concur with this condition. Based on the data and research of both the Department and the SAO, the total questioned costs should be stated as \$48,854 rather than the \$819,887 as shown above. The reason for the difference is that SAO used a different test database and criteria when

testing records in the following two areas:

- **The Department does not agree with the audit exceptions for recipients classified as deceased and receiving benefits.** The department uses Social Security Administration (SSA) data to determine if persons are living or dead. For audit testing, the SAO used a system called VERIS, a commercial software package from Security Software Solutions (SSS), trademarked by S.G. Schoggen and Company. The VERIS package allows its customers (in this case, the SAO) to obtain Social Security number validation from Security Software Solutions, which gets information from SSA updated weekly. VERIS does not directly link to the SSA databases and Social Security Administration has repeatedly advised the Department to rely on data obtained directly from their databases, instead of secondary data sources such as those used by the SAO.

To determine date of death, the SAO appears to have used the SSA Death Master File Index. However, DSHS found that persons listed as deceased on the SAO index were continuing to receive SSA and SSI benefits, according to the SSA databases and Master Benefits Record¹. The SAO refused to accept SSA payment information as evidence the recipient was still alive, despite the fact that the Department is required to accept such information as stated in 42 CFR 435.955. SAO also refused to accept any other collateral evidence, such as department visits to the home, facility statements of the person being alive, or statements from relatives and the recipient's identification.

If DSHS receives information that conflicts with the SSA data, DSHS independently verifies the correct data. This allows DSHS to use the most accurate data in making their determinations, while complying with federal rules by using the SSA interface information. SSA states that the best source of data is SOLQ, which is real-time, accurate information as SSA records it. Using SSA data complies with 42 CFR 435.948, which requires State Medicaid agencies to interface with Federal agencies and use their data to make eligibility determinations.

The Department has complied with federal law in obtaining and verifying the questioned SSNs, and would have no authority under federal law to rely upon the database accessed by the SAO.

- **The Department does not concur with the findings on invalid social security numbers.** The Department does agree that there are instances of recipients receiving benefits with incorrect social security numbers but this occurs under the Federal requirement (42 CFR 435.910(f)), "The agency [in this case, DSHS] must not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual's SSN by SSA."

By Federal law, DSHS is prohibited from refusing benefits to possible ineligible while waiting for issuance or verification of an SSN. This puts the state in the position of issuing benefits without verification of an eligibility factor, as required by federal law, and then having associated costs questioned by the SAO.

In addition to the questioned costs, DSHS would like to provide additional information regarding some of the recommendations from the SAO. It is not possible for DSHS employees to review all alerts all the time given the current workload. However, we do think it is possible to provide training on the SSA interface systems and SSA alerts. The department does recognize there are system problems that adversely affect employee case review productivity. Specifically, the SOLQ tool needs improvements to its sign on process and accessibility to staff. It is a useful tool but has program flaws that inhibit the work process

Additionally, there are also SSN errors attributable to the conversion from the old system (ITIS) to the current eligibility system (ACES). The Department is looking into the possibility of the ACES producing quarterly SSN reports in order to do a comprehensive SSN review. If this can be accomplished in addition to SOLQ tool improvements, DSHS will be able to reduce some manual processes and improve case reviews.

¹ SSA instructed DSHS to rely on these sources of information as more accurate than the data in the SSA Death Master File.

The Department does not concur with “Other Exceptions Not Included in Sample.” The department was not provided information on the cases that pertain to the \$17,705 during or after the audit, therefore we cannot determine if these questioned costs are valid.

Condition B. Basic Health Plus

The Department does not concur with this condition. In the prior year audit response we stated that the audit test results did not support the need for a finding. In this follow up audit year, audit testing was not done and does not support additional audit recommendations. We reaffirm our SFY01 audit response with additional clarification to statements made in this audit finding:

- *All applicants and recipients are expected to declare their household income, regardless of whether their income is at or below 200% Federal Poverty Level (FPL).*
- *In addition to the 400 BH Plus random reviews, Medical Eligibility Determination Services (MEDS) receives an average of 1,200 BH Plus Household Change (DSHS 14-406) forms from households due for an annual review monthly. The 1,200 is based on the fact that three maintenance units receive between 400 – 450 DSHS 14-406 forms returned by clients each month. Each change form is reviewed by an eligibility worker to determine if the change affects continued eligibility.*
- *MEDS has always corroborated a client’s income declaration if the declared income is at or above 200% FPL, by pending the application or review and requesting proof of income.*
- *Changes in income do not affect a child’s Medicaid eligibility during their certification period.*
- *There is not a requirement to verify income unless it is questionable. Self-declaration of household circumstances is provided under MAA’s policy distributed to the field on December 3, 1998. DSHS is notified of household by BH or via the DSHS 14-406 form.*
- *MEDS does work with HCA on reported income changes during the certification period and is followed up at annual review time. It is an expectation for both Basic Health (BH) and Medical Assistance Administration (MAA) staff to follow Chapter 5, section 5-02 Basic Health Plus Pregnancy Medical Change of Circumstances – Change in Household/Income in the BH/MAA Policy and Procedure Manual.*

With regard to the new audit recommendations from the SFY02 audit:

a. Require declarations of income for all clients not just those close to 200% FPL.

DSHS could not do more than it is already doing to verify client income. All clients applying for children’s medical are required to declare their income on the application. DSHS policy requires all applicants requesting children’s Medicaid to declare their household income, regardless of whether it is “close to 200% FPL”. December 3, 1998, DSHS established the policy of declaration of income for children’s medical programs. Those guidelines stated: “.....children applying for medical programsmust declare income on the application.”

b. Establish procedures that would corroborate a client’s income declaration with an independent source.

MEDS follows established DSHS policies for corroborating client income as outlined in the Eligibility A-Z Manual, WAC 388-406-0030 (3); WAC 388-490-0005 (2), (3), (4), (5) (a), (b), (c), (8) (a), (9), (10); WAC 388-458-0001; Clarifying Information (E A-Z manual, pg 4 & 5), “The federal requirements for Medicaid verifications are much less stringent than those for cash or food assistance. Except as noted in the chart below (see E A-Z manual) for specific programs, accept client’s declaration of age, identity, and SSN. Ask for verification to be provided whenever the information is questionable.” The chart specifically indicates that for children’s Medicaid, we do not require verification unless questionable. For verifications, “Any source, including verbal, written, and email statements, can be used as long as it meets the “Criteria for Evaluating Verification” (see E A-Z

manual). Income can be verified via pay stubs, statement from employer, SEMS data, bank statements, collateral contact, SOLQ. These procedures are already established and staff follows them in order to corroborate a client's income declaration if necessary.

Condition C. Provider Licensing

The Department did not concur with this finding in the SFY01 audit, nor do we concur with it for this fiscal year. We previously acknowledged that enhancements to the division's internal controls and procedures could be made and the Department has done that. Post audit review of the providers questioned in the SFY01 report showed all were properly licensed in the audit period tested. The Department reaffirms its response to the SFY01 and emphasizes that the \$9,837,143 questioned was for properly licensed providers and should not have been cited as a questioned cost.

Condition D. Provider Health and Safety Standards - Hospitals.

The Department concurs with this condition. MAA plans to establish procedures that will be used when information comes from DOH, Aging and Adult Services or other established entities regarding health and safety standards not being met. However, given other priorities and the lack of additional staff, this area has not been addressed at this time.

Condition E. Provider Health and Safety Standards – Nursing Homes.

The Department concurs with this condition. However, the department believes a more effective method of tracking Denial of Payment Notice (DOP) is for CMS to directly notify MAA of the facility status. Corrective action has been identified and was implemented in November 2002.

Auditor's Concluding Remarks

Condition A - Payments made for persons with invalid social security numbers or made on behalf of deceased individuals.

The Department was informed from the outset of the audit that VERIS software and the SSDI were used only in our initial analytical work to lead us to SSNs that appeared to be invalid or belonging to persons who were deceased. We did not predicate our opinion solely on the information derived from these sources. When our initial testing was complete, we presented the results to the Department. The Department was given an opportunity to provide additional information for the 228 exceptions that we found. We received supporting documentation for only 131 of our exceptions. For some of the exceptions for which the Department provided no supporting documentation, MAA had indicated that they concurred with our results.

With respect to the supporting documentation received from the Department, some of the information consisted of SOLQ verifications of SSNs, Department of Health records, print-outs from their Automated Client Eligibility System, and screen prints from Bendix status reports. These we accepted as adequate support if the documentation addressed the reason for the exception. However, we were also presented with other "proofs" such as bus passes, health insurance cards dating back to 1988, ID cards from other states and copies of social security cards, the numbers of which did not verify in SOLQ. We did not accept these latter pieces of "collateral evidence" as support that a person was alive, or that an SSN was valid. We reviewed and considered every piece of information presented by the Department. In fact, we reduced our original estimate of questioned costs by \$216,030 based on the evidence provided by the Department.

Pursuant to 42 CFR 435.955 we have no dispute that "... the agency may not terminate, deny, suspend or reduce medical assistance to that individual until it has taken appropriate steps to verify the information independently...." However, the Department could not offer satisfactory evidence that it was verifying SSN information independently even when alerted by SSA that an SSN was invalid. Indeed, DSHS staff reported that workers may accumulate up to 2000 alerts in one month most of which are summarily deleted from their systems without further investigation due to heavy workloads. Staff, however, also reported that

workers do not use the tools at their desktops. SAO contends that these tools would have averted many of these alerts by informing the worker that the SSN was invalid for the name under which it is offered. As a result of these control weaknesses and inadequate supervisory monitoring, we found that one out of every two SSNs accepted by the Department, for the clients we tested, were invalid or belonging to a deceased person.

Pursuant to 42 CFR 435.910 (f) we have no dispute in that “...*The agency must not deny or delay services to an otherwise eligible applicant pending issuance or verification of the individual’s SSN by SSA*”. However, the Agency could not provide evidence that it assisted the client in obtaining a valid SSN as directed in 42 CFR 435.910 (e) or that it acted when it was alerted by SSA that an SSN was invalid. Some of the clients that we questioned were receiving medical assistance with invalid SSNs since 1996 and did not appear to have undergone the periodic eligibility redetermination as directed in 42 CFR 435.916. Furthermore, we saw evidence in the Department’s case files where an MAA employee was aware that the SSN was invalid and accepted it nevertheless. Management is aware of this practice and reports that client need is the motivating factor in circumventing controls.

With respect to the “Other Exceptions Not Included in Sample”, the Department was provided with both verbal notification and written documentation of these exceptions at the exit conference with the State Medicaid Director on December 16, 2002. These Medicaid exceptions were found during our statewide audit of claims and benefits and included in this finding because the associated federal questioned costs were greater than \$10,000, which is the federal reporting threshold. Further, the Department had the opportunity to review these exceptions prior to the formal exit conference and to provide additional supporting documentation.

Our recommendations in the finding are consistent with the Governor’s current budget proposal before the Washington State Legislature that tighter controls be placed on screening for Medicaid eligibility.

Condition B - Basic Health Plus.

In its response, the Department stated that we did not perform testing to support our recommendations. This is not accurate. As required by OMB Circular A-133, we performed follow-up work to determine the extent of the corrective action taken by the Department and evaluated whether a reportable condition that could lead to material noncompliance still existed. The Department indicated that the changes to their internal controls were extensive, in process, and the majority of them were not implemented for fiscal year 2002. Interviews were conducted with staff relative to the Department’s changes in internal control. Our concerns about the continued control weaknesses were discussed with management.

We do not believe that self-declaration is a sufficient control, regardless of the individual’s economic status relative to the FPL. We also have concerns with the methods of income verification that the Department intends to use when it performs a review. The Department reported that its new procedures incorporated mostly self-declarations as proof of income or pay stubs when one is available. The Department has no plans to corroborate information with Employment Security Department or any other independent source to determine the accuracy of the representations made for the household in self-declaration. With respect to self-employed clients, the Department reported that, at times, it reviews the financial records of the business, but no evidence of these reviews could be obtained from Department management during our audit.

Condition C - Provider Licensing.

We reaffirm our fiscal year 2001 finding. Questioned costs of \$9,837,143 were associated with 29 licensing deficiencies for eight providers. Thirteen of the licenses the Department had on file were not in the records of the Department of Health or the professional licensing board. Eleven of the licenses had expired or belonged to individuals who were deceased and five of the licenses were in the names of individuals other than those listed on the application. Name changes related to marriage or divorce could not explain these discrepancies.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Section .300 states:

The auditee shall:...

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs....

Invalid Social Security Numbers

Title 42, Code of Federal Regulations, section 435.910(a) states:

The agency must require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish each of his or her social security numbers (SSNs).

Title 42, Code of Federal Regulations, section 435.910(g) states:

The agency must verify each SSN of each applicant and recipient with SSA, as prescribed by the commissioner, to insure that each SSN furnished was issued to that individual and to determine whether any others were issued.

In cases where the Medicaid applicant cannot recall or has not been issued a SSN, Title 42, Code of Federal Regulations, section 435.910(e) states the agency must:

- (1) Assist the applicant in completing an application for an SSN;
- (2) Obtain evidence required under SSA regulations to establish the age, the citizenship or alien status, and the true identity of the applicant; and
- (3) Either send the application to SSA or, if there is evidence that the applicant has previously been issued a SSN, request SSA to furnish the number.

Title 42, Code of Federal Regulations, section 435.916 (a) states:

The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months....

Title 42, Code of Federal Regulations, section 435.920 states:

- (a) In redetermining eligibility, the agency must review case records to determine whether they contain the recipient's SSN or, in the case of families, each family member's SSN.
- (b) If the case record does not contain the required SSNs, the agency must require the recipient to furnish them and meet other requirements of 435.910.

Title 42, Code of Federal Regulations, section 435.920(c) states:

For any recipient whose SSN was established as part of the case record without evidence required under the SSA regulations as to age, citizenship, alien status, or true identity, the agency must obtain verification of these factors in accordance with 435.910.

Hospitals, Nursing Facilities and Immediate Care Facilities

Title 42, Code of Federal Regulations, Section 442.112 (a)

The Medicaid agency may not execute a provider agreement or make Medicaid payments to a facility unless the Secretary or the State survey agency has certified the facility.

Title 42, Code of Federal Regulations, Section 442.119 states:

The denial of payments for new admissions will continue for 11 months after the month it was imposed unless, before the end of that period, the state finds the facility has corrected the deficiency or is making a good faith effort to achieve compliance.